




File
**ALMINEX
LIMITED**

1971 ANNUAL REPORT



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ALMINEX LIMITED

Head Office

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Thirteenth Annual Report December 31 1971

DIRECTORS

F. R. BURTON	TORONTO
D. R. DELAPORTE	TORONTO
W. F. JAMES	TORONTO
D. R. LOCHHEAD	TORONTO
J. N. STEPHEN	CALGARY
J. B. WEBB	CALGARY

OFFICERS

F. R. BURTON	PRESIDENT
W. F. JAMES	VICE-PRESIDENT
J. N. STEPHEN	VICE-PRESIDENT AND GENERAL MANAGER
A. E. SIVERTSON	TREASURER
D. G. C. MENZEL	SECRETARY

TRANSFER AGENT AND REGISTRAR
CROWN TRUST COMPANY
MONTREAL, TORONTO AND CALGARY



AUDITORS

THORNE, GUNN, HELLIWELL & CHRISTENSON

ALMINEX LIMITED

Five Year Summary

	<u>1971</u>	<u>1970</u>	<u>1969</u>	<u>1968</u>	<u>1967</u>
FINANCIAL					
Gross Production (after royalty)	\$ 6,457,406	\$ 5,366,105	\$ 4,775,003	\$ 4,713,879	\$ 4,397,132
Net Production Income (after operating costs)	5,653,348	4,680,232	4,251,959	4,176,554	3,877,246
Administrative and General Expense	188,405	170,121	154,097	150,360	152,851
Interest Expense	—	30,128	52,150	96,075	129,399
*Exploration Expense	1,410,277	688,664	1,022,724	1,217,884	1,074,540
Depletion, Depreciation and Write-offs	1,850,015	1,731,616	1,400,604	1,242,889	1,280,081
Cash Earnings after all cash expenses	4,136,054	3,861,518	3,038,017	2,735,134	2,530,494
Net Income	1,263,039	976,902	943,413	747,245	917,118
Bank Loans Outstanding	—	—	872,000	734,000	1,812,000

OPERATING

Net Daily Production:

Oil and NGL (barrels)	5,095	4,406	4,003	3,762	3,446
Natural Gas (thousands of cubic feet)	19,642	20,696	15,848	13,900	13,400

Reserves — Net Proven:

Crude Oil (barrels)	35,612,000	37,176,000	38,430,000	39,280,000	40,440,000
Natural Gas Liquids (barrels)	3,740,000	3,982,000	4,040,000	4,280,000	4,500,000
Natural Gas (billions of cubic feet)	159.37	167.60	166.54	160.39	145.96
Sulphur (long tons)	211,000	217,000	228,000	237,000	244,000
Net Acreage	7,468,414	6,941,139	7,183,206	6,947,635	2,707,183

* Includes exploration drilling, dry hole costs, geological, geophysical and unproven property expense.

ALMINEX LIMITED

Report of the Directors

TO THE SHAREHOLDERS:

Your Directors are pleased to present their report for the year ended December 31, 1971.

THE COMPANY

FINANCIAL

Due entirely to higher oil sales, Alminex's gross production revenue after royalties was \$6,457,406, an increase of 20.3% over 1970. Net production income after operating expenses was \$5,653,348, 20.8% higher than last year. After adding other income of \$81,388 and deducting administrative and general expenses of \$188,405, and exploration and unproven property expenses of \$1,410,277, net cash income was \$4,136,054, an increase of 7.1%. Increased allowances for depletion and depreciation were more than offset by higher revenues and a reduction in the provision for income taxes. Net income of \$1,263,039 showed a substantial increase of 29.3% over 1970. Dividends were increased to 17¢ per share, to a total of \$1,299,762.

P. 12
Higher capital expenditures, in large part undertaken to increase production and take advantage of higher market demand, totalled \$1,351,470, comprising \$152,520 on development, \$889,748 on plant and equipment, and, in keeping with Alminex's aggressive exploration policy, \$309,202 on land acquisitions.

PRODUCTION

The growing demand for oil resulted in Alminex's crude oil production totalling 1,620,243 barrels net after royalty, an increase of 20.4% over 1970. While the sales of most natural gas liquids (NGL) continued to be satisfactory, some were temporarily weak and the total of 239,341 net barrels was down 8.8%. Combined crude oil production and natural gas liquid sales averaged 5,095 net bbls. per day, an increase of 15.6%.

Record production of oil and NGL sales of 5,585 net bbls. per day were achieved in December, 1971.

Natural gas production declined 5.1% to 7,169 MMcf. (million cubic feet), a net daily average of 19.6 MMcf. This modest decline was caused by the explosion and fire at the Marten Hills plant which restricted production during January and February and a line break which interrupted sales from the Carstairs plant.

Production of sulphur was down sharply to 6,997 long tons, a decrease of 27.4% and sales averaged 60%. The decline in production was due entirely to the reservoir problems in the Harmattan Leduc field. With sulphur sales continuing stagnant and prices weak, there is no economic justification to try and remedy these problems.

Tables on pages 12 and 13 provide comparative figures for oil, NGL, natural gas and sulphur production, by fields.

RESERVES

As of December 31, 1971, Alminex's net proven reserves of crude oil were 35,612,000 barrels, a decline of 1,564,000 barrels, or 4.2% from 1970. The decrease is due primarily to the year's production. Net proven reserves of NGL declined 242,000 barrels, approximately the year's sales, to 3,740,000 barrels.

Net proven reserves of natural gas also declined by the amount of the year's production to 159.4 Bcf., a drop of 4.9%.

Net proven reserves of sulphur were decreased 6,000 long tons to 211,000 long tons, down 2.8%, due to the year's production. Not included in this figure is Alminex's sulphur inventory which presently totals 11,000 long tons.

The table on page 9 compares your Company's proven and probable reserves at December 31, 1971, with those at the end of 1970.

EXPLORATION

Exploration drilling increased sharply from 1970. Alminex participated in 32 wells of which eight were drilled in the United States by a new wholly-owned subsidiary, Alminex (U.S.) Inc. A further three wells were drilled by other companies on lands in which your Company has an interest at no out-of-pocket expense to Alminex. The total compares with 21 exploratory wells drilled in 1970. This drilling resulted in two oil discoveries, one at Freemantle, Saskatchewan, and the other near Fort Norman, Northwest Territories, and a gas discovery at Pendant D'Oreille in southern Alberta. Freemantle is on production to determine its economic potential. The gas discovery is shut-in, pending the decision to drill additional wells. The oil well at Fort Norman is also suspended while your Company participates in other exploratory wells in the general area. The results of these tests and those achieved by other exploring companies will determine if and when this discovery is brought into production.

The number of seismic and other geophysical programs also increased. A gravity program which has shown effectiveness in finding Silurian reefs was undertaken in Ontario. An extensive reconnaissance marine seismic program was conducted on Alminex's acreage in Great Bear Lake, N.W.T., and seismic programs were conducted at Niwelin, N.W.T., and begun at Fort Norman, N.W.T. In the Arctic Islands, Murphy Oil Company Ltd. completed a seismic program on the Prince Albert Peninsula of Victoria Island pursuant to the farm-out agreement, and Panarctic Oils Ltd. conducted a seismic survey over your Company's acreage on Eglinton Island. In addition, Alminex participated in seismic surveys in Alberta at Alhambra, Anton Lake, Beaverlodge, Whitemud and Nose Creek, and farmees conducted a survey at Ferrier.

DEVELOPMENT

Development drilling continued at a slow pace. Alminex joined in drilling ten development wells, all of which were located in Alberta. Of the three completed in the Bindloss Viking gas

field two are capable of production, and the third, although dry, can be used for pressure observation. A successful oil well was drilled at Medicine River, but an attempted gas well at Whitecourt was unsuccessful. A well drilled at Pembina is presently suspended. Four wells were drilled in the Manyberries field, found in 1970; two were successful, one suspended and one abandoned.

OUTLOOK

As part of their farmout commitment, Murphy Oil will be conducting a surface geological survey on many of the permits in the eastern Arctic Islands. Several of Alminex's permits on Eglinton Island previously farmed out to Panarctic, and in which that company has earned an 85% working interest, form part of a farmout by Panarctic to a major oil company. Before the middle of 1973, the farmee must undertake a seismic program and drill a deep test in order to earn its interest from Panarctic. This will not result in any dilution of Alminex's 15% working interest. Panarctic is also conducting a seismic survey on joint acreage on Melville Island.

Your Company's acreage at North Nahanni and Redstone, N.W.T., has been farmed out to Imperial Oil Enterprises Ltd. Imperial is committed to a seismic program in the winter of 1971-72 with the option to drill one or two wells in subsequent years to earn a working interest in either or both of the blocks. Alminex's acreage at Old Crow, Yukon Territory, has been farmed out to CanDel Oil Ltd. CanDel must conduct a seismic program in the winter of 1971-72 to earn a working interest in the lands and has the option to earn a further interest through additional seismic work or drilling. Hudson's Bay Oil and Gas Company Limited will earn an interest in one of your Company's permits at Camsell Bend, N.W.T., by drilling a well this winter and has options to earn an interest in additional lands in subsequent years. Alminex was participating in drilling one well at Fort Norman at year-end and will join in drilling three more wells in the same area shortly. Because of the growing exploration interest, Alminex filed on 380,070 acres in the Root River area,

N.W.T., increasing our gross holdings in the mainland portion of the Territories to 3,209,437 acres.

Although Alminex is active in northern Canada, the western Canadian provinces remain the areas of major exploration interest. At the end of the year two wells were drilling in central and northern Alberta and a number of additional wells are planned for 1972. Further evaluation of Athabasca oil sand leases will also be undertaken. At least five exploratory tests are expected to be drilled in northeastern British Columbia. In Ontario one well is in progress and one, and possibly two additional wells, will be drilled in 1972.

Seismic programs are planned on farmouts at Carcajou and Grandview Hills, N.W.T., as well as Fort Norman. Seismic mapping will also be done on recently purchased reservations at North Weyburn, Saskatchewan, and at Beaverlodge, Alberta.

In anticipation of growing market demand, capital expenditures to increase oil production facilities will remain high during 1972 and a number of development wells will be drilled in order to maintain gas production. Additional capital costs will be incurred to minimize sulphur pollution.

Alminex's production of crude oil is expected to rise again in 1972, but unless discoveries are made, sales of natural gas and natural gas liquids will be maintained at about present levels. Partial blowdown of the Harmattan Elkton gas field should begin too late in the year to have any impact. Although there has been some recent strengthening of sulphur prices in the U.S. market it is too early to tell whether the low point in prices has been seen.

Your Company now has to operate under new tax legislation. While the full impact must be assessed, it is expected to affect Alminex's future adversely.

Your Directors again wish to record their appreciation to all members of the staff for their untiring service rendered during the year.

THE INDUSTRY

Western Canadian production of crude oil and natural gas liquids continued its record setting pace and reached an average of 1,595,000 barrels per day, up 8.0% over last year. Following the trend of recent years almost all of the increase in production occurred in Alberta. Again, following the pattern of the recent past, export markets provided the greatest increase in demand. Districts I, II and IV, the eastern and midwestern areas of the United States, absorbed 545,000 barrels per day of crude oil, up 23.9% and although the demand in District V, the United States west coast, declined 4.1% to 210,000 barrels per day, the over-all increase in the export market was 14.6%. Despite the modest decline, the west coast market for Canadian oil remains strong while the construction of the Trans Alaska Pipeline is delayed. The Canadian market west of the Ottawa Valley took 730,000 barrels per day which was 2.8% higher than in 1970. Retail price increases east of the Ottawa Valley, as a result of higher prices for foreign crude, have confirmed the vulnerability of this market which is largely dependent upon Venezuelan oil.

Natural gas sales to domestic markets were up 11.1% to 2800 MMcf per day. Demand in the United States also increased 16.8% to 2500 MMcf per day.

In November the National Energy Board, being of the opinion that there were insufficient gas reserves for Canada's ultimate requirements, rejected three export applications. The competition for Canadian gas brought about by United States demand not only resulted in fairer prices to the producer, but caused United States gas companies to invest large amounts of risk capital for exploration in frontier areas. To what extent the N.E.B.'s decision will reduce these spurs to exploration over the short term is still unknown.

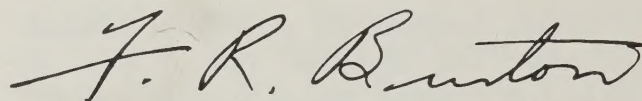
The success of exploration in the MacKenzie Delta, N.W.T., enhances the possibility of marketing the reserves which may be found along the valley of the MacKenzie River. The expanding exploration in the Arctic Islands indicates that many problems associated with this difficult area are being overcome and that the geological po-

tential is attractive to a growing number of companies. The gas and condensate discovery at Sable Island, on Canada's east coast, is also spurring activity in that area.

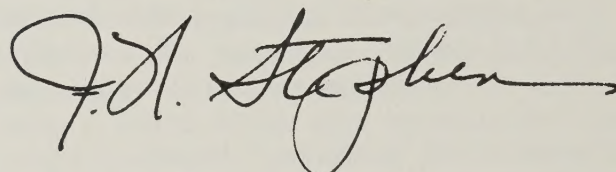
Because of political uncertainties evident in many parts of the world, Canada is receiving greater exploration emphasis, and it is expected that Canadian oil will enjoy a higher market demand. The pressures brought by foreign oil producing countries for higher oil prices may well result in an upward adjustment in the prices paid

to Canadian producers. Similarly, despite the short term uncertainty, the growing demand for natural gas should result in higher prices for uncommitted Canadian supplies. Price adjustments are also expected to occur as contracts permit price redeterminations. Despite the actions which the Alberta government is expected to take in order to increase its share of revenues, the outlook for oil and gas exploration in Canada, in general, remains very bright.

On behalf of the Directors,



President



Vice-President and
General Manager

Toronto Ontario
March 1, 1972

Notes on Operations

EXPLORATION

Ontario

In late December, Seis-Ex et al #1 Sombra 1-18-XI was spudded. It is evaluating a gravity anomaly which may represent a Silurian Guelph reef. Much of Ontario's oil and gas production occurs in this formation.

Saskatchewan

Alminex participated in three exploratory tests, Murphy Alminex Cantal East 4-5-5-33 W1M, Murphy Alminex SR ML Eden 3-27-6-33 W1M and Murphy Alminex Freemantle 11-16-8-3 W2M. The Freemantle well was an oil discovery in which your Company has a 25% interest. However insufficient production testing has taken place to ascertain its significance.

Southern Alberta

Although reservoirs tend to be limited, exploration in this area is accelerating. Alminex participated 15% in CMG et al Black Butte 7-3-1-8 W4M and 25% in three wells in the Princess area, Home Almx Princess 11-9-19-10 W4M, 10-28-20-10 W4M, and 10-4-21-10 W4M. All failed to find production in the Cretaceous sand objectives. A farmee drilled Champlin WinterH. 10-8-24-15 W4M, which was also unsuccessful. CMG Pendor 6-32-3-8 W4M was cased and shut-in as a potential gas discovery from the Cretaceous Sunburst sand. Alminex has a 15% interest in this well which has only a thin reservoir and the decision to drill development wells remains to be taken.

Central Alberta

Continuing interest in the multiple objectives of the Medicine River area prompted Alminex to participate 10.1% in NCEN et al Med. R. 7-2-38-5 W5M, but this test to the Mississippian was a dry hole. Because of a Devonian Beaverhill Lake gas discovery in the area, Mobil et al Rosevear 10-4-54-15 W5M was drilled, Alminex participating 12.5%, but the expected reservoir proved to be tight. Ashland et al Stewart 6-30-58-4 W5M (Alminex interest 12.5%), found the Mississippian objective eroded and although it tested gas and some oil out of the Cretaceous Blairmore formation, the reservoirs were uneconomic and the well was abandoned. Alminex shared 22.5% in Westcoast et al Anton Lake 7-6-60-23 W4M which tested a seismic anomaly

thought to reflect a Devonian Leduc reef, but the results were negative. Following an unsuccessful effort in 1970, another attempt was made to extend the productive area of the Meekwap field which produces from the Devonian Nisku formation. Cdn. Sup. Meekwap 13-24-66-15 W5M (Alminex interest 16.7%) was a dry hole when it found the Nisku formation lacked porosity. Alminex had a 25% interest in Home Almx KCL Akuinu 10-16-67-3 W5M which was an unsuccessful attempt to find oil production in the Devonian Gilwood sand. In an effort to extend the Marten Hills gas field to the south and southwest, your Company participated 12.5% in Home Almx Smith 10-36-72-26 W4M, 25% in Tenn. et al Howard 7-15-73-25 W4M and 33.3% in Home Almx Marten Hills 11-29-73-25 W4M, all of which failed to find the Cretaceous gas reservoir productive.

A group of farmees attempted to find Cretaceous Cardium oil production along the trend of the Garrington field, but GAO Banner Home Chedder 7-34-37-7 W5M was dry and abandoned.

Northern Alberta

Baysel et al Silver V. 10-11-83-10 W6M was drilled on a farmout from Alminex, but was abandoned after failing to find production in any of its Cretaceous or Jurassic objectives. At year-end ARCO et al Shekelie 3-25-118-9 W6M in which Alminex has a 33.3% interest was drilling. Devonian Keg River oil production has been found in the township to the east.

British Columbia

Alminex participated 10% and 8.6% respectively, in Union et al Scot Point a-81-I 94-H-2 and Union et al Yew d-37-H 94-H-7, located in an area undergoing active exploration for gas. Scot Point a-81-I tested gas in both the Cretaceous Blairmore and Triassic Halfway sands, but net pays were too thin to consider completion. These reservoirs were only poorly developed in Yew d-37-H and it was abandoned.

Northwest Territories

Horn R. CanDel et al Ebbutt J-05 and Horn R. CanDel et al Willowlake G-47 were drilled as part of the farmout obligations in which Alminex shared 25%, to earn a 12.5% interest in 710,000 permit acres at Camsell Bend. Both results were negative. Alminex had a 25% interest in Horn R. SOBC Andex Almx Green I. 0-24, a shallow test in the southern part of the territories which also failed to find production. CanDel DECKMG et al Police Island L-66 and CanDel DECKMG

et al East Mackay B-45 were located near Fort Norman and were drilled as part of a large farm-out which, if all drilling options are exercised in future years, will earn Alminex an interest in 525,024 permit acres. Police Island L-66 was located on an anticline defined by a seismic survey but was dry and abandoned. East MacKay B-45 was also located on seismic evidence of an anticlinal structure and drill stem tested 1830' of 20° API oil and some salt water. Casing has been run and the well suspended. Further exploration success in the MacKenzie Valley and Delta would enhance the economic potential of East Mackay. CanDel DECKMG et al Tate J-65, a test of another anticline on the same farmout, was drilling at year-end. Alminex's share of the costs of these projects was 16.7% to earn an 8.3% interest.

United States

Your Company participated in eight dry holes in the Denver-Julesburg Basin of northeast Colorado and southwest Nebraska. This low cost area has been intensively explored in the past and a number of small but prolific fields have been found which produce from Cretaceous sands.

DEVELOPMENT

Willey, Ontario (Alminex interest 3.9%)

Waterflooding of the Cambrian oil reservoir began on September 15. This secondary recovery project is expected to significantly increase recovery, but it is too early to assess results.

Manyberries, Alberta (Alminex interest 6.2%)

Anderson et al Manyberries 7-6-5-4 W4M and Anderson et al Manyberries 11-12-5-5 W4M both found oil in the Cretaceous Sunburst reservoir. These wells are about a mile from existing producers and until further development is carried out it cannot be ascertained whether they have extended the limits of the existing fields or found new pools. Anderson et al Manyberries 6-7-5-4 W4M, although presently shut-in, appears a doubtful producer and Anderson et al Manyberries 1-11-5-5 W4M was a dry hole. If additional reserves can be proved up allowables and production will be improved.

Carstairs-Crossfield Plant, Alberta (Alminex interest 4.9%)

Construction of the new sulphur plant began in 1971 and is expected to be completed in April,

1972. The new technique to be employed will provide more efficient sulphur recovery and reduce emissions.

Medicine River, Alberta (Alminex interest 12.5%)

The productive area of the Cretaceous Glauconitic oil field was extended with the successful completion of HB Home Med. R. 4-20-39-4 W5M. An additional development well, HB Home Med. R. 2-19-39-4 W5M, was spudded on December 31. Efforts to unitize this field have so far been unsuccessful.

Pembina, Alberta (Alminex interest 11.3%)

Home Almx Pembina 10-13-48-8 W5M was drilled and completed in an attempt to recover oil by-passed in waterflood operations. While presently suspended the operator is hopeful that a newly initiated secondary recovery project in the area will enable the well to become a producer.

Swan Hills Unit #1, Alberta (Alminex interest 5.1%)

The construction of a second large waterflood project in the west central part of the unit began in 1971. When completed in the summer of 1972, it is expected to significantly increase oil production from this field in response to higher market demand.

Whitecourt, Alberta (Alminex interest 5.5%)

Pacific Unit Whitecourt 7-24-59-12 W5M was drilled by the unit to increase productivity and reserves, but failed when the Jurassic Nordegg sand was found only poorly developed.

OIL PRODUCTION

The high capital expenditures which have been incurred to increase oil production are expected to continue through 1972. The developments at Swan Hills Unit #1 have already been discussed and the operator of the Virginia Hills Unit, in which Alminex has a 3.82% interest, is seeking unit approval for the large expenditures required to increase production. Similarly, the operator of the Mitsue Unit (Alminex 1.25% interest) is reviewing methods in which production may be increased. These high reserve fields are called upon to supply the additional volumes of oil required by increased market demand which shows no sign of abating in the near future.

Reserves

The following table shows the Company's estimated proven and probable reserves of oil, natural gas, natural gas liquids and sulphur as of December 31, 1971, and for comparison those of December 31, 1970.

	Dec. 31, 1971	Dec. 31, 1970		Dec. 31, 1971	Dec. 31, 1970
CRUDE OIL RESERVES (Millions of Barrels)			NATURAL GAS (Billions of Cubic Feet)		
Proven Reserves	35.61	37.18	Proven Reserves	159.37	167.60
Probable Reserves	6.53	6.63	Probable Reserves	10.23	10.37
NATURAL GAS LIQUIDS (Millions of Barrels)			SULPHUR (Thousands of Long Tons)		
Proven Reserves	3.74	3.98	Proven Reserves	211	217
Probable Reserves	1.13	1.13	Probable Reserves	15	15

Land

The following table summarizes Alminex Limited land holdings under reservation and lease categories as to gross and net acres, as of December 31, 1971.

	Reservations		Leases		Totals	
	Gross	Net	Gross	Net	Gross	Net
Alberta	236,416	34,064	1,437,581	288,318	1,673,997	322,382
Saskatchewan and Manitoba	144,880	48,853	136,856	29,374	281,736	78,227
British Columbia	25,822	8,607	52,070	3,201	77,892	11,808
Ontario	—	—	18,429	3,687	18,429	3,687
Yukon and N.W.T.	2,960,133	1,360,930	249,304	37,816	3,209,437	1,398,746
Arctic Islands	7,342,362	5,653,564	—	—	7,342,362	5,653,564
	<u>10,709,613</u>	<u>7,106,018</u>	<u>1,894,240</u>	<u>362,396</u>	<u>12,603,853</u>	<u>7,468,414</u>

1971 Drilling Record

Exploratory Wells

(Gross)	Dry Holes	Oil Disc.	Gas Disc.
Saskatchewan	2	1	—
Alberta: Southern	5	—	1
Central	10	—	—
Northern	1	—	—
British Columbia	2	—	—
Northwest Territories	4	1	—
United States	8	—	—
	<u>32</u>	<u>2</u>	<u>1</u>

Development Wells

(Gross)	Dry Holes	Oil Wells	Gas Wells	Susp.
Alberta:				
Bindloss	1	—	2	—
Manyberries	1	2	—	1
Medicine River	—	1	—	—
Pembina	—	—	—	1
Whitecourt	1	—	—	—
	<u>3</u>	<u>3</u>	<u>2</u>	<u>2</u>

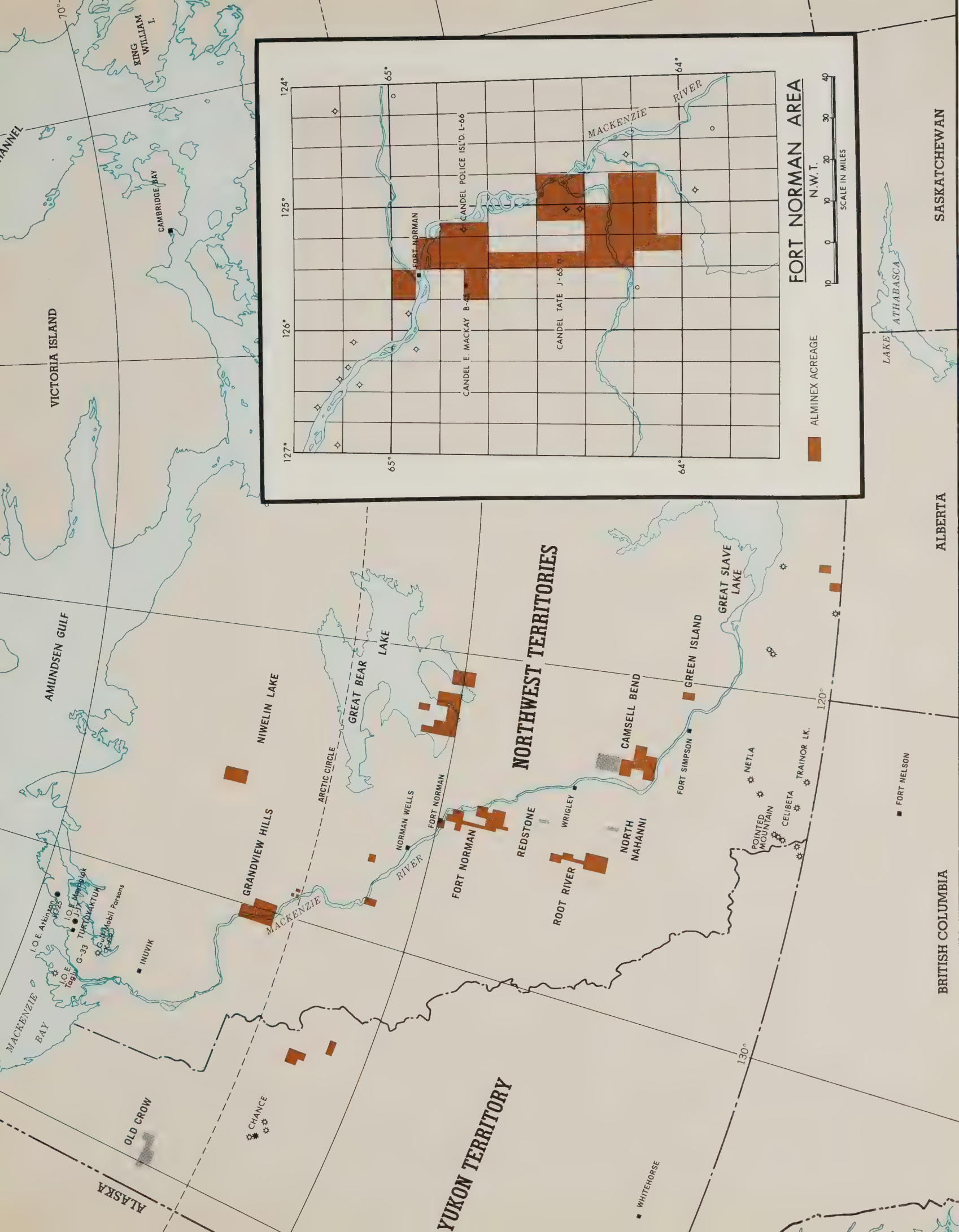


ALMINEX LIMITED

ARCTIC ISLANDS , YUKON
AND
NORTHWEST TERRITORIES

ACREAGE HOLDINGS





Producing Interests:

OIL

UNITIZED FIELDS	UNIT INTEREST	PRODUCTION	
	%	1971	1970
Alberta		(Barrels — after royalty)	
Swan Hills Unit #1	5.10	888,931	665,122
Virginia Hills Unit #1	3.82	183,439	171,368
Mitsue Gilwood Sand Unit #1	1.25	139,791	111,269
Harmattan-Elkton Unit #1	8.81	119,892	108,510
Inverness Unit #1	7.43	97,201	108,542
North Pembina Cardium Unit #1	0.42	38,034	34,822
Harmattan East Unit #1	1.14	23,795	20,780
Crossfield Cardium Unit #1	7.80	15,410	15,686
Westward Ho Unit #1	7.65	15,072	17,224
Freeman Unit #1	5.78	8,030	8,068
House Mountain Unit #4	1.68	4,328	4,807
Sundre Unit #1	0.21	1,802	1,684
Pembina Cardium Unit #3	1.88	1,039	1,049

Ontario

Willey-Dunwich	3.92	2,166	3,038
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NON-UNITIZED FIELDS

	WELLS			
	Gross	Net		
Alberta				
Pembina	21	1.88	43,788	37,230
Ersine	21	2.63	12,955	11,777
Medicine River	5	0.63	3,178	3,734
Stettler	1	0.31	1,873	1,437
Other Non-Unit Interests	—	—	1,350	829
Saskatchewan				
Browning-Clarilaw	5	1.25	11,019	11,199
Midale South	1	0.40	6,188	7,324
Others	1	0.50	962	348
TOTAL	55	7.60	1,620,243	1,345,847
Daily Average			4,439	3,687

GAS & NATURAL GAS LIQUIDS

UNITIZED FIELDS	UNIT INTEREST	GAS PRODUCTION		NGL PRODUCTION	
	%	1971	1970	1971	1970
Alberta		(MMcf. — after royalty)		(Bbls. — after royalty)	
Carstairs Elkton Unit	10.15	3,325.150	3,485.616	160,056	193,031
Marten Hills South Gas Unit #1 ...	20.03	1,216.949	1,425.816	—	—
Bindloss Viking Sand Gas Unit	7.97	926.094	1,007.549	—	—
Swan Hills Unit #1	5.10	373.823	289.892	—	—
Retlaw Unit #1	14.87	270.784	217.269	2,771	2,000
West Provost Viking Gas Unit	6.66	184.824	167.192	188	100
Whitecourt Gas Unit #1	5.52	165.666	146.963	—	—
Calgary Elkton Unit #1	0.40	154.360	150.234	5,685	5,000
Calgary Crossfield Unit #1	0.02				
Harmattan Leduc Unit #1	4.49	81.099	141.013	—	—
South Elkton Unit #1	11.74	80.762	97.770	2,379	2,750
Virginia Hills Unit #1	3.82	75.013	58.309	—	—
Atlee-Buffalo-Jenner Unit	7.38	36.890	36.559	—	—
Crossfield Turner Valley Unit #1 ..	0.09	35.929	31.391	1,719	1,700
Inverness Unit #1	7.43	32.561	34.912	—	—
Erskine Gas Unit #1	2.79	16.922	22.608	—	—
Sylvan Lake Gas Unit #1	0.09	8.091	5.609	—	—
Harmattan-Elkton Unit #1	2.84	—	—	52,187	47,949
Harmattan East Unit #1	0.39	—	—	5,758	5,000
Other Unit Interests	—	4.022	6.975	8,598	3,885

Saskatchewan

Coleville Smiley Viking Sand			
Gas Unit	0.28	17.175	18.542
Hoosier Viking Sand Gas Unit	0.25	7.745	7.861

NON-UNITIZED FIELDS

	WELLS			
	Gross	Net		
Alberta				
Pendor	6	0.90	129.562	168.082
TOTAL	6	0.90		

ROYALTY INTERESTS	25.774	34.051		
TOTAL	7,169.195	7,554.213	239,341	262,370
Daily Average	19.642	20.696	656	719
OIL + NATURAL GAS LIQUIDS				
Daily Average			5,095	4,406

SULPHUR

Alberta	PRODUCTION (Long Tons)	
	1971	1970
Harmattan Leduc Unit #1	6,143	8,765
Carstairs-Crossfield	712	724
Calgary Units	142	146
TOTAL	6,997	9,635

ALMINEX

(Incorporated under

BALANCE SHEET-

(with comparative figures

ASSETS

	<u>1971</u>	<u>1970</u>
CURRENT ASSETS:		
Cash	\$ 97,662	\$ 106,286
Term deposits, including accrued interest	1,302,975	1,180,293
Accounts receivable	544,725	461,240
Inventory, at lower of cost and replacement cost	127,269	69,292
Prepaid expenses	3,217	4,424
	<u>2,075,848</u>	<u>1,821,535</u>
INVESTMENT IN SUBSIDIARY COMPANIES (note 1):		
Shares, at cost	<u>12,274</u>	<u>302</u>
OTHER ASSETS:		
Investments, at cost		
Marketable (quoted market value 1971, \$8,487; 1970, \$12,085)	9,710	9,720
Other	8,481	8,481
Operating and performance deposits	263,311	154,109
	<u>281,502</u>	<u>172,310</u>
PROPERTY, PLANT AND EQUIPMENT, at cost (note 2)	46,105,687	44,891,470
Less accumulated depletion and depreciation	14,143,378	12,472,299
	<u>31,962,309</u>	<u>32,419,171</u>
	<u><u>\$34,331,933</u></u>	<u><u>\$34,413,318</u></u>

Approved by the Board

F. R. BURTON, *Director*

W. F. JAMES, *Director*

L I M I T E D

(In accordance with the laws of Canada)

DECEMBER 31, 1971

(As at December 31, 1970)

LIABILITIES

	1971	1970
CURRENT LIABILITIES:		
Accounts payable and accrued liabilities	\$ 369,032	\$ 69,667
Income tax payable	92,156	11,131
	<u>461,188</u>	<u>505,850</u>
PREPAYMENTS ON FUTURE GAS DELIVERIES (note 3)	<u>562,500</u>	<u>562,500</u>

SHAREHOLDERS' EQUITY

CAPITAL STOCK (note 4):		
Authorized		
10,000,000 Shares without par value		
Issued		
7,645,661 Shares	35,006,782	35,006,782
CONTRIBUTED SURPLUS	70,091	70,091
DEFICIT	(1,768,628)	(1,768,628)
	<u>33,308,245</u>	<u>33,344,968</u>
	<u>\$34,331,933</u>	<u>\$34,413,318</u>
CONTINGENT LIABILITY (note 7)		

AUDITORS' REPORT

TO THE SHAREHOLDERS OF
ALMINEX LIMITED

We have examined the balance sheet of Alminex Limited as at December 31, 1971 and the statements of income, deficit and source and application of funds for the year then ended. Our examination included a general review of the accounting procedures and such tests of accounting records and other supporting evidence as we considered necessary in the circumstances.

In our opinion these financial statements present fairly the financial position of the company as at December 31, 1971 and the results of its operations and the source and application of its funds for the year then ended, in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

CALGARY, Alberta
February 11, 1972

THORNE, GUNN, HELLIWELL & CHRISTENSON
Chartered Accountants

ALMINEX LIMITED

STATEMENT OF INCOME

Year ended December 31, 1971 (with comparative figures for 1970)

	<u>1971</u>	<u>1970</u>
REVENUE:		
Sale of gas and oil, less royalties	\$6,457,406	\$5,366,105
Investment and other income	81,388	70,199
	<u>6,538,794</u>	<u>5,436,304</u>
EXPENSES:		
Operating	804,058	685,873
Administrative and general	188,405	170,121
Exploratory drilling and dry hole costs	646,526	330,616
Geophysical and geological (note 8)	438,853	87,556
Unproven property (note 8)	324,898	270,492
Interest on long-term debt	—	30,128
	<u>2,402,740</u>	<u>1,574,786</u>
Income before write-offs and income taxes	<u>4,136,054</u>	<u>3,861,518</u>
WRITE-OFFS:		
Property surrendered	68,785	23,479
Depletion	1,119,865	997,732
Depreciation	619,682	497,901
Advances to subsidiary companies (note 1)	41,683	212,504
	<u>1,850,015</u>	<u>1,731,616</u>
Income before income taxes	2,286,039	2,129,902
Income taxes (note 6)	1,023,000	1,153,000
NET INCOME FOR THE YEAR	<u>\$1,263,039</u>	<u>\$ 976,902</u>
Earnings per share	<u>\$.17</u>	<u>\$.13</u>

STATEMENT OF DEFICIT

Year ended December 31, 1971 (with comparative figures for 1970)

	<u>1971</u>	<u>1970</u>
BALANCE AT BEGINNING OF YEAR	\$1,731,905	\$1,561,958
Net income for the year	1,263,039	976,902
	<u>468,866</u>	<u>585,056</u>
Dividends paid	1,299,762	1,146,849
BALANCE AT END OF YEAR	<u>\$1,768,628</u>	<u>\$1,731,905</u>

ALMINEX LIMITED

STATEMENT OF SOURCE AND APPLICATION OF FUNDS

Year ended December 31, 1971 (with comparative figures for 1970)

	<u>1971</u>	<u>1970</u>
SOURCE OF FUNDS:		
Income before write-offs and income taxes	\$4,136,054	\$3,861,518
Income taxes	<u>1,023,000</u>	<u>1,000,000</u>
	3,113,054	2,708,518
Prepayments on future gas deliveries	—	562,500
Decrease in other assets	—	113,449
Decrease in advances to subsidiaries	—	37,620
	<u>3,113,054</u>	<u>3,422,087</u>
APPLICATION OF FUNDS:		
Acquisition of properties	309,202	22,038
Development of proven properties	152,520	51,604
Additions to plant and equipment	889,748	494,854
	<u>1,351,470</u>	<u>568,496</u>
Investment in subsidiary company	11,972	—
Increase in other assets	109,192	—
Decrease in long-term debt	—	338,000
Dividends paid	1,299,762	1,146,849
Advances to subsidiary companies	41,683	—
	<u>2,814,079</u>	<u>2,053,345</u>
INCREASE IN WORKING CAPITAL	298,975	1,368,742
WORKING CAPITAL (DEFICIENCY) AT BEGINNING OF YEAR	1,315,685	(53,057)
WORKING CAPITAL AT END OF YEAR	<u>\$1,614,660</u>	<u>\$1,315,685</u>

ALMINEX LIMITED

Notes to Financial Statements

Year ended December 31, 1971

1. Investment in subsidiary companies:

	1971	1970
Shares, at cost		
Alminex (U.K.) Limited	\$ 302	\$302
Alminex (U.S.) Inc.	11,972	—
	<u>\$12,274</u>	<u>\$302</u>

The accounts of the wholly-owned foreign subsidiary companies have not been consolidated in the financial statements as they are in the exploration stage and their operations are not significant.

Alminex (U.K.) Limited, inactive in 1971, participated in a joint exploration program in the North Sea and abandoned its permits during 1970. Advances to it of \$212,504, less \$7,323 recovered in 1971, have been written off.

Alminex (U.S.) Inc., incorporated in 1971, acquired property and participated in an exploration program during the year which was not successful. Advances to it of \$49,006 have been written off.

2. Property, plant and equipment:

	1971			1970
	Cost	Accumulated depletion and depreciation	Net	Net
Proven properties, including development	\$37,931,093	\$ 9,700,000	\$28,231,093	\$29,198,937
Unproven properties	1,555,477	—	1,555,477	1,315,070
Plant and equipment	6,619,117	4,443,378	2,175,739	1,905,164
	<u>\$46,105,687</u>	<u>\$14,143,378</u>	<u>\$31,962,309</u>	<u>\$32,419,171</u>

The company's accounting practice is to transfer total property costs of an area from unproven to proven properties when production commences. Proven property costs, including the costs of drilling productive wells, are depleted on a unit of production method based on the total of estimated proven and probable reserves of oil and gas.

Property carrying charges, cost of dry holes drilled and exploration expenses are charged against income as incurred. Unproven property costs are charged to income when the properties are surrendered.

Depreciation on plant and equipment is provided on a diminishing balance basis at maximum rates permissible under the Canadian Income Tax Act.

3. Prepayments on future gas deliveries:

Under gas purchase contracts executed in 1970, the company committed its gas reserves in two fields and received \$562,500 in prepayment for future deliveries. These prepayments will be taken into income as deliveries are made.

4. Capital stock:

At December 31, 1971 there were outstanding options to employees to purchase a total of 17,000 shares at \$4.45 per share (exercisable cumulatively in five equal instalments to December 31, 1973).

5. Other statutory information:

	1971	1970
Number of directors	6	6
Aggregate remuneration of directors as directors	Nil	Nil
Number of officers	5	5
Aggregate remuneration of officers as officers	\$66,500	\$60,000
Number of officers who are also directors	3	3

Directors and officers of the company received no remuneration from the subsidiary companies in 1971 and 1970.

ALMINEX LIMITED

6. Income taxes:

For income tax purposes the company claims property and development costs in amounts which may exceed the related depletion reflected in its accounts. Capital cost allowances claimed and depreciation provided in the accounts are for the same amounts.

The Canadian Institute of Chartered Accountants recommends that the income tax allocation method of accounting should be adopted whereby a provision is made for income taxes based on earnings reported in the accounts. The company, however, in common with many other companies in the oil and gas industry in Canada, believes that income tax allocation in respect of property and development costs is not appropriate, and this position is accepted by accounting authorities outside Canada. Accordingly, no provision has been made for deferred taxes on timing differences involving such costs.

If the tax allocation basis in respect of excess claims for property and development costs had been followed in current and prior years, net income would have been decreased by approximately \$69,000 in 1971, increased by approximately \$53,000 in 1970 and the cumulative amount of deferred tax credits to December 31, 1971 would have been approximately \$2,603,000.

7. Contingent liability:

The company has deposited with the Government of Canada non-interest bearing demand notes amounting to \$1,336,000 as deposits in respect of work obligations on properties. Under the terms of a farmout agreement in 1970 approximately \$1,060,000 of these notes are to be replaced by notes of the farmee.

8. Expenses:

In 1970 geological and geophysical and unproven property expenses were reduced as a result of recoveries under a farmout agreement.

AR03



**ALMINEX
LIMITED**

Interim Report

June 30, 1971

August 11, 1971.

TO THE SHAREHOLDERS:

During the first six months of 1971, crude oil production increased but natural gas liquids, natural gas and sulphur production all decreased. Gross production income and net profit were substantially higher.

PRODUCTION

The following table compares the net average daily production during the first six months of 1971 with the same period of 1970:

	1971	1970	Increase (Decrease)
Oil (bbls./day)	4236	3656	15.9%
Natural Gas Liquids (bbls./day)	619	701	(11.7%)
Gas (millions cu. ft./day)	19.6	20.6	(4.9%)
Sulphur (long tons/day)	20	27	(25.9%)

Continuing strong demand for crude oil in the United States and Canada resulted in increased production from Alminex's high reserve fields. Record production of 4480 net barrels per day was achieved in April. The demand for natural gas liquids declined during the second quarter of 1971 with a resulting decrease in sales, but increased demand is expected during the remainder of this year. The slight drop in natural gas production was due, principally, to an explosion and fire at the Marten Hills plant which restricted output during January and February. Production difficulties in the Harmattan Leduc field have reduced sulphur output, but sales remain weak and stockpiling is continuing.

FINANCIAL

The unaudited financial results of Alminex's operations during the first half of 1971 compared with 1970 are as follows:

	1971	1970	Increase (Decrease)
Gross Production			
Income —			
after royalty	\$3,135,090	\$2,665,800	17.6%
Cash Earnings —			
after all costs			
including			
exploration, but			
excluding			
depreciation,			
depletion and			
income taxes	1,909,873	1,617,500	18.1%
Net Income			
before taxes	1,047,931	890,500	17.7%
Provision for			
Income Tax	445,000	467,400	(4.8%)
Net Profit	602,931	423,100	42.5%

Despite a substantially larger program of exploratory drilling and land acquisition, net profit for the period increased. The increased pace of exploration will be maintained throughout the remainder of the year.

On June 29, 1971, an interim dividend of seven cents per share was paid by your Company on which Canadian shareholders are entitled to claim a full 20% depletion allowance.

EXPLORATORY DRILLING

During the first six months of 1971, Alminex participated in 19 exploratory wells and one additional well was drilled by another company at no out-of-pocket expense to your Company. This compares with 13 wells during the same period of 1970. Two further wells were drilling at the end of June. Of the 20 exploratory tests, 18 were abandoned, one, in southern Alberta, was completed as a potential Sunburst gas well from a thin reservoir, and the other, East Mackay B-45, near Fort Norman in the Northwest Territories, was suspended after recovering heavy oil on drill stem test. Alminex owns an 8 $\frac{1}{3}$ % interest in the East Mackay discovery and has earned or can earn either 4 $\frac{1}{6}$ % or 8 $\frac{1}{3}$ % in almost 525,000 permit acres in the area. Additional wells are planned for the coming winter.

Seismic programs were conducted on prospects in Alberta and the Northwest Territories and additional programs are contemplated during the second half of the year. A marine seismic project has begun on Great Bear Lake on lands in which Alminex has a 33.33% interest. Murphy Oil Company is evaluating the results of a large reconnaissance seismic program it conducted on your Company's acreage on Victoria Island in the Arctic. As part of its farmout commitment, Murphy will shortly complete an aeromagnetic survey on Victoria and Stefansson Islands and participate in a marine seismic program off northeast Devon Island.

DEVELOPMENT

Three wells drilled in the West Provost field in 1970 were completed in 1971. Two were completed as gas wells, but the third well found oil rather than gas and is presently suspended. A well in the Medicine River oil field was successfully completed.

Major capital expenditures are planned to process and sell gas at Harmattan Elkton and to increase oil production at Virginia Hills. A project to increase oil production at Swan Hills has been delayed because of the Conservation Board's request for further information.

RESERVES

Proven and probable reserves of oil, natural gas and sulphur decreased during the first half of 1971 due to production.

OUTLOOK

Canadian crude oil production during the first six months of 1971 increased only 6.6%. Paced by growing export markets, demand is expected to accelerate and for the full year an increase of 11.5% is forecasted. Production from Prudhoe Bay, Alaska, when it does come to market, is expected only to slow the growing dependency of the United States on imported crude. Natural gas is also in short supply and Canadian sales are expected to increase almost 15% over 1970. Of interest are the large sums American utility companies will spend in Arctic exploration in the hope of securing gas supplies surplus to Canadian requirements. As already noted, sales of natural gas liquids are expected to improve during the second half of 1971. The sulphur market remains weak. Steps are being taken to increase the uses of sulphur and the Alberta government has recently announced plans for the stockpiling of 50% of the province's production in the hope that prices will stabilize, but the future is not bright.

The impact of the recently announced tax legislation is being assessed. It is hoped that the government will still see fit to modify some of its proposals so as to maintain a growing and competitive oil industry.

On behalf of the Directors,

F. R. BURTON,
President.

ALMINEX LIMITED

STATEMENT OF SOURCE AND APPLICATION OF FUNDS

for six month period ending June 30, 1971 with comparative figures for 1970
(Unaudited)

SOURCE OF FUNDS:	1971	1970
Operations:		
Income before Write-offs and Income Taxes	\$1,909,900	\$1,617,500
Income Taxes	445,000	467,400
	<u>\$1,464,900</u>	<u>\$1,150,100</u>
Advance on Sale of Gas Reserves	—	562,500
	<u>\$1,464,900</u>	<u>\$1,712,600</u>
APPLICATION OF FUNDS:		
Acquisition of Properties	\$ 275,400	\$ 11,800
Development of Properties	34,200	32,900
Additions to Plant and Equipment (Net)	308,800	352,400
Decrease in Long Term Debt	—	338,000
Dividends Paid	535,200	382,300
Increase (Decrease) in Other Assets	24,900	(140,300)
	<u>\$1,178,500</u>	<u>\$ 977,100</u>
INCREASE IN WORKING CAPITAL POSITION	\$ 286,400	\$ 735,500
WORKING CAPITAL AT BEGINNING OF YEAR	1,315,700	93,200
WORKING CAPITAL AT JUNE 30	<u>\$1,602,100</u>	<u>\$ 828,700</u>